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30 April 1975

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ECONOMIC INTELLIGENCE WEEKLY

30 April 1975

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Overview

Aggregate Industrial Production in the Major Developed Countries has leveled off after the rapid decline of second half 1974. Since December, output has risen in Italy, France, West Germany, and the United Kingdom; has evened out in Japan and Canada; and has declined in the United States, though at a less rapid pace. Progress in working off excessive inventories is the most evident reason for these trends.

Paris Acted Last Week To Pump \$3.7 Billion into the Economy, following up measures to spur housing construction and exports. Investment by the telephone system and other state enterprises is being hiked, and additional credit is being furnished for private investment and regional development. Concessionary loans are being offered to exporters, and a 10% tax credit is being granted for industrial investment.

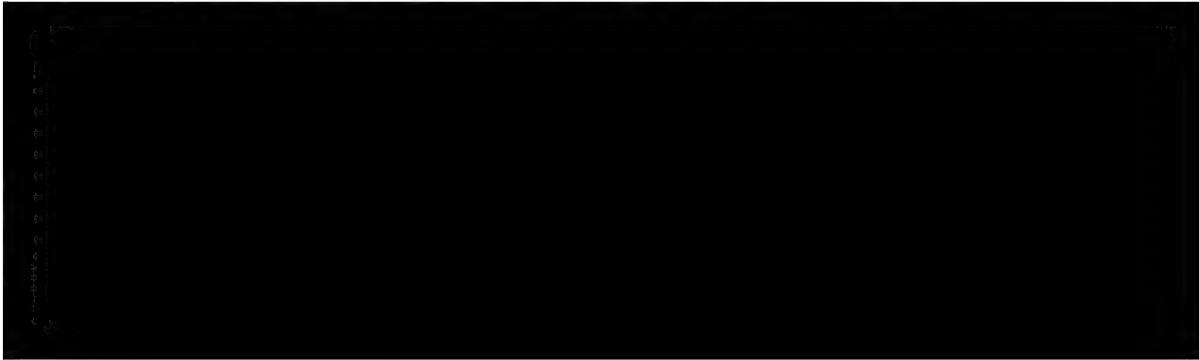
The Record World Grain Crop in Prospect for 1975/76 should provide a slight margin over consumption and permit small additions to stocks, especially in the United States. Bumper harvests are expected for the United States, the USSR, Canada, and China, assuming normal weather for the balance of the growing season. Only in Western Europe and in some North African countries has production already been hurt by adverse weather.

Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [REDACTED] the Office of Economic Research, Code 143, Extension 7892.

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The USSR appears headed for a near-record grain harvest, which would cover Soviet requirements for domestic use and export. Thus the decision to purchase foreign grain will be largely dictated by price and probably will not be made before summer.

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Articles

WORLD GRAIN OUTLOOK FOR 1975/76

Current forecasts of world grain production (excluding rice) in the 1975/76 crop year point to a slight easing of the tight supply situation of the past two years.

Production and Consumption

Output is expected by USDA to reach a new high of 997 million tons, up 10% from 1974/75, with wheat increasing 7% and feedgrain 11%. Grain stocks should increase moderately; they still will be too low to offer much protection against a bad crop year.

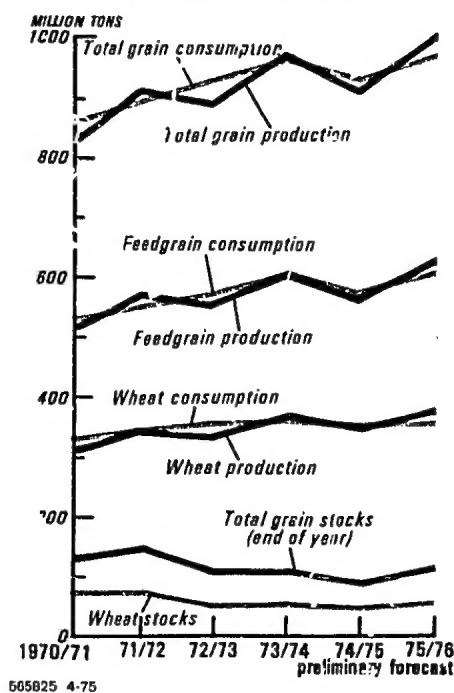
The United States accounts for three-fifths of the projected 88 million ton increase in output. Bumper harvests also are predicted for the USSR and Canada if weather is normal for the balance of the crop season. (For a discussion of the outlook in the Soviet Union, see the following article.) Output in Western Europe and North Africa probably will fall as a result of unfavorable weather.

USDA estimates that grain consumption will increase to a record 972 million tons, 43 million more than in the current crop year. Most of the increase will be the result of a partial recovery in feedgrain consumption in the United States, now down roughly 20% from a year ago. Grain consumption will grow less rapidly in most foreign countries because their use of feedgrain has fallen only slightly.

Uncertainties

Any forecast of grain production made at the start of the crop year can be upset by the vagaries of weather. For example, predictions a year ago of record grain production and a rebuilding of stocks in 1974/75 proved wrong because of poor weather and yields in the United States and Southeast Asia. Other major uncertainties are

World Grain Production, Consumption, and Stocks



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- the effect of the anticipated economic recovery in foreign countries on demand for grain fed to livestock,
- the outcome of international efforts to provide more food aid to LDCs,
- the extent to which foreign importers rebuild stocks, and
- the extent to which the demand for feedgrain increases in the United States.

Mere rumors of a poor crop in any major producing country will put upward pressure on prices because present carryover stocks of grain provide little margin above minimum pipeline needs. In particular, US stocks of both wheat and feedgrain are so small that exports will, in effect, have to come out of current production.
(For Official Use Only)■

* * * *

USSR: BUMPER GRAIN HARVEST LIKELY*

The USSR is headed toward a bumper grain harvest. Our early forecast puts 1975 production at 220 million tons, close to the 1973 record of 222.5 million.

The estimate is based on prospects for a record winter crop of 70 million tons and an above-average spring harvest. The forecast remains subject to considerable uncertainty. Last year, for example, a mid-May freeze hurt the winter crop, and a summer drought cut spring grain yields. Harvesting problems with this year's winter crop or continuation of the current dry weather in parts of the spring grain areas could drop output to the planned 215.7 million or less. On the other hand, a good summer in the spring grain areas could result in a new record in 1975.

Winter Grains

Conditions during the past winter—probably the warmest in Soviet history—have been favorable for winter grains. Normally, more than 7 million hectares of grain are either killed during the winter or used as green forage to feed livestock in the spring. Of the 35-1/2 million hectares sown last fall, however, only about 5-1/2 million hectares will not be harvested this summer.

* This article summarizes the findings of a forthcoming OER publication on Soviet grain prospects.

The warm temperatures that promise high yields may create problems:

- Weed infestation is likely to be greater than usual.
- A higher incidence of disease is possible because of the lush plant growth.
- Lush growth also contributes to lodging and wind damage, making harvesting more difficult.

Spring Grains

The outlook is far more tentative for spring grains than for the winter crop. Parts of the spring grain area currently have below-normal soil moisture. Rainfall in May and early June—always important in these areas—is critical this year. Unless the moisture deficiency becomes more serious, a spring grain yield of about 1.5 tons per hectare is likely. If the sowing plan is fulfilled and 100 million hectares are harvested, 150 million tons of spring grain would result.

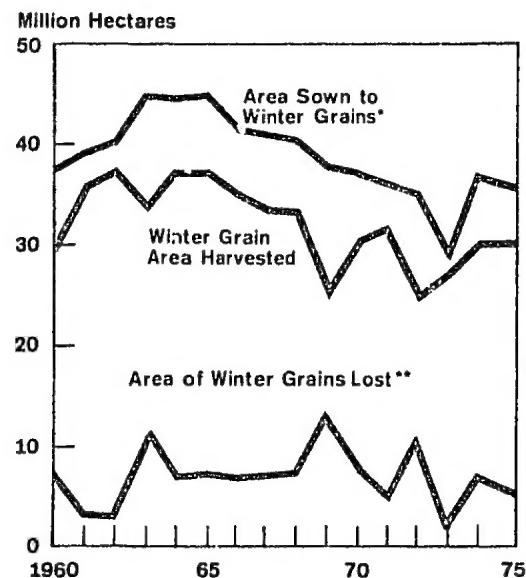
Trade Prospects

The projected harvest of 220 million tons will cover requirements for domestic use and export in 1975. Although the Soviets may buy grain for their livestock program, they have not shown interest in new grain purchases since the 1974 harvest. In any case, the USSR probably will not enter the market before early summer, when Moscow can better assess its needs and the trend in world grain prices.

East European Outlook

In Eastern Europe, prospects are favorable for a harvest at least equal to last year's record 74 million tons. The outlook for winter grains is described as good in most countries; only in Bulgaria is the winter crop in trouble, with drought

History of Winterkill in the Soviet Union



*Sown in the preceding fall for harvest in the given year.

**Also includes some fall sown grains used as green forage crops for livestock in the spring.

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extending into a third year. Mild weather kept losses from winterkill below normal. Favorable weather also allowed the spring sowing campaign to get off to an early start. Heavy spring rains slowed sowing progress in Czechoslovakia; no sowing problems were reported elsewhere. This year, larger areas are being put into spring grains to offset the shortfall in sowing of winter grains. East European grain import requirements in fiscal 1976 will probably be about 8 million tons, of which one-half—mostly wheat—will be supplied by the Soviet Union. (Confidential)■

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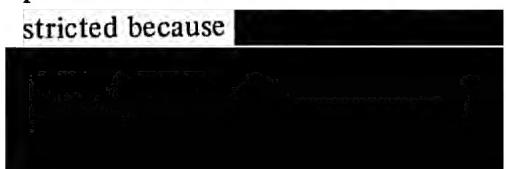
WORLD FERTILIZER MARKET: A SHORT-RUN VIEW*

World production and consumption of chemical fertilizer have moved up steadily over the last five years. At the same time, prices in the international market have been extremely volatile, quadrupling between mid-1973 and mid-1974, only to fall back in recent months in the face of world recession and expanding supplies.

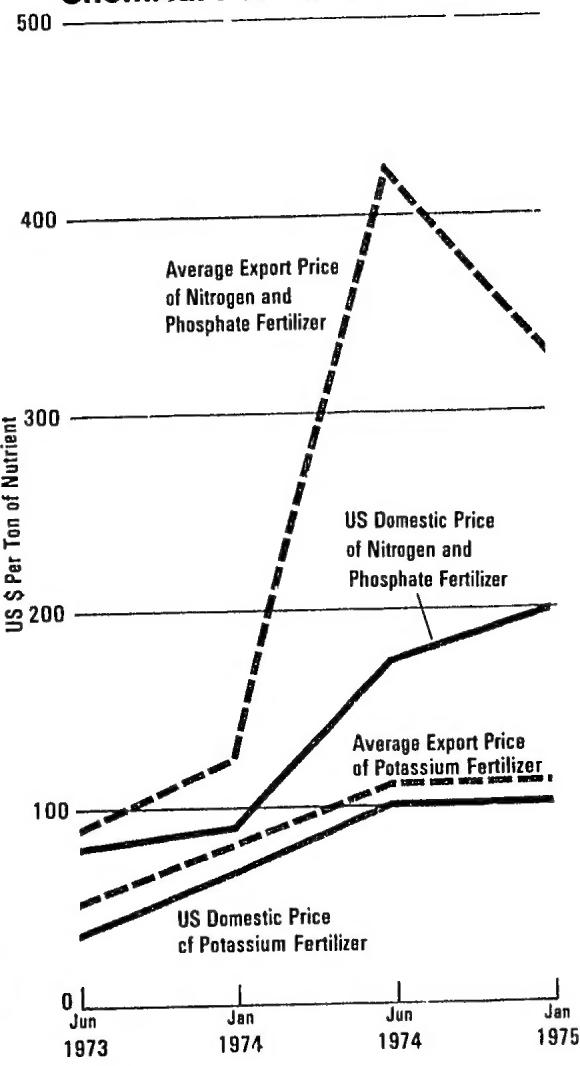
Production of nitrogen and phosphate fertilizer will increase substantially in the 1975/76 fertilizer year because of (a) the coming on stream of plants in major producing countries and (b) the availability of sizable amounts of ammonia and phosphoric acid, being diverted from nonfertilizer uses because of sluggish demand. In contrast, production of potassium fertilizer will be constricted because [redacted]

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Chemical Fertilizer Prices

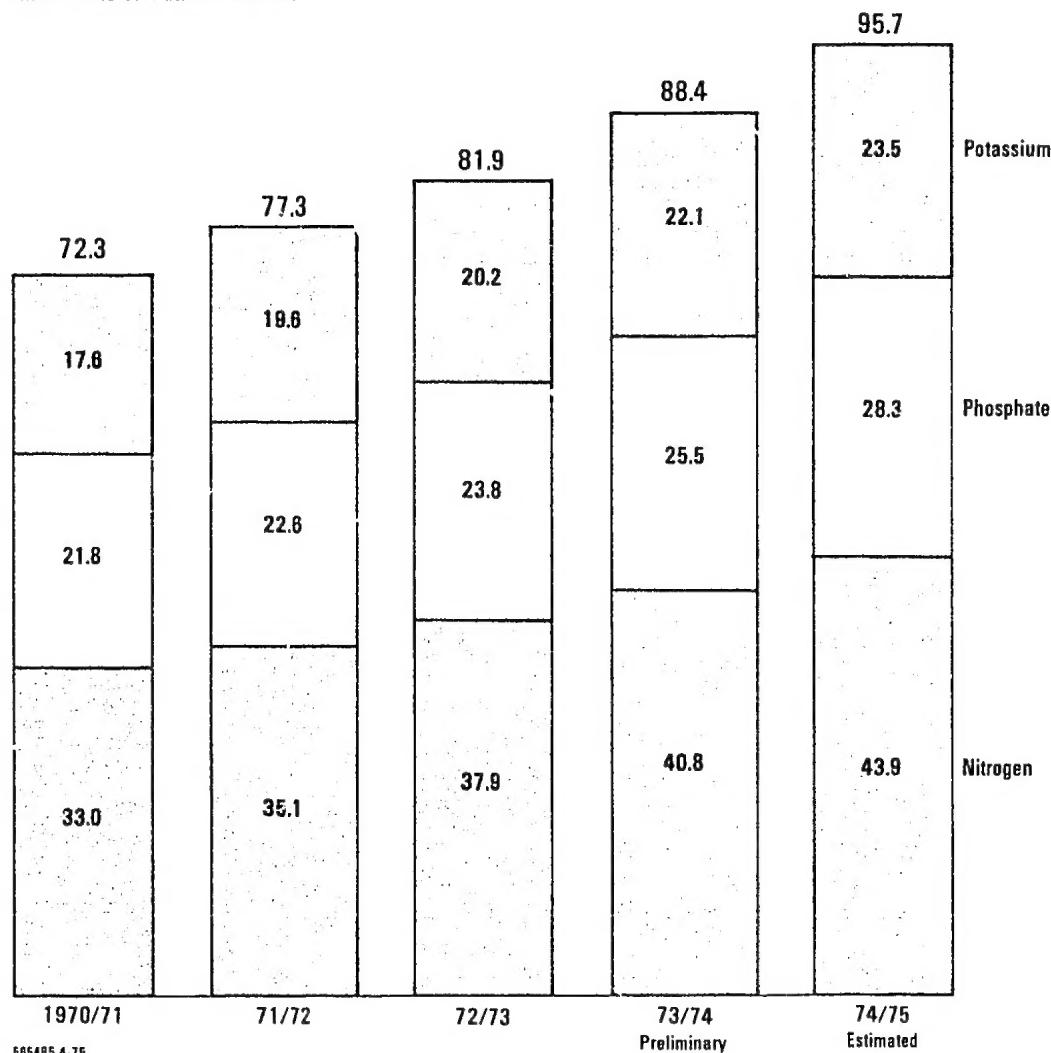


* This article is the summary, slightly modified, of a forthcoming OER publication.

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World Production of Chemical Fertilizer, by Type

Million Tons of Nutrient Content



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The international prices of nitrogen and phosphate fertilizer thus are expected to continue under downward pressure in 1975/76, while prices for potassium fertilizer will be comparatively firm. Even though down from their peak, prices in mid-1975 will be perhaps triple the early 1973 level and will continue to place an extraordinary burden on the non-oil LDCs. Fertilizer application rates in developing countries are so low that farmers cannot reduce inputs without suffering considerable loss in yield. Farmers in the developed countries continue to increase their use of fertilizer, although not nearly so rapidly as before the price explosion. (Confidential) ■

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BEEF TRADE: LOOSENING OF RESTRAINTS

The slight relaxation of beef import bans by the EC and Japan, brought about in part by intense political pressure from beef exporting countries, will provide little relief.

The EC, with surplus stocks of 250,000 to 300,000 tons, will allow 50,000 tons to enter during 1 June through 30 September - provided that imports are matched with equal volumes of exports. Another 50,000 tons of imports may be approved under this plan in September. In addition, a new annual quota of 23,000 tons from African, Caribbean, and Pacific countries has been established. Also approved were Italian imports of 67,500 head of cattle, mostly from Austria and Yugoslavia. Even with these programs, EC imports in 1975 probably will not exceed 50% of the 300,000 tons imported in 1974.

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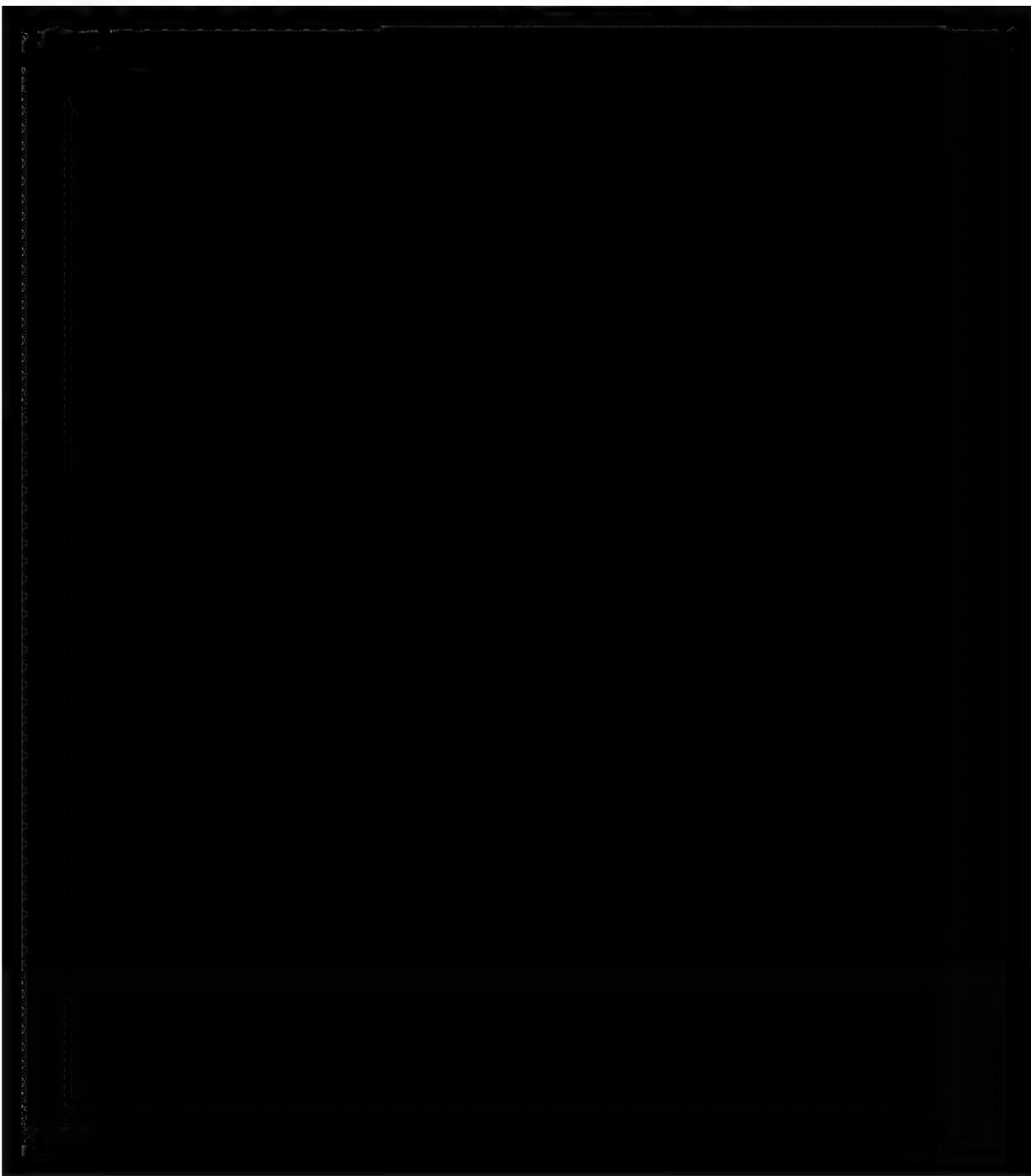
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TOO MANY TANKERS

Stagnating world oil trade and record deliveries of new tankers have rendered surplus almost one-third of world oil-carrying capacity and are threatening many

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tanker owners with bankruptcy. Owners and charterers are responding by lowering ship speeds, laying up vessels, and canceling orders for new tankers.

Origin of the Problem

While tanker tonnage has continued to expand rapidly, world seaborne trade in crude oil and products changed little in 1974 and dropped in early 1975. January-February shipments were 12% lower than in 1974. Meantime, producers continue to cut output to maintain prices. Deliveries of tankers and combination oil/dry cargo ships rose to a record 46 million deadweight tons (DWT) in 1974. With deductions for ships lost and scrapped, the world oil fleet increased 18% in 1974, to 291 million DWT. By the end of February 1975, surplus capacity reached a record 89 million DWT.

The surplus will rise to 120 million DWT by yearend 1975, even if (a) trade volume remains at the 1974 level and (b) cancellations reduce tanker deliveries planned for the remainder of the year by one-third. If the current mushrooming of order cancellations continues, the surplus could level off in 1976.

Repercussions and Adjustments

One of the first effects of the growing tanker surplus was a drop in charter rates on the sensitive voyage charter market. The Mullion Index* of voyage charter rates worldwide dropped from a 1974 high of 217 in March following the end of the embargo to 115 at the end of the year; voyage charter rates for shipments from the Persian Gulf to Europe on VLCCs dropped from \$8.00 to \$3.31 per ton by the end of the year, well below break-even cost of \$5.00 a ton. By the end of March 1975, owners of VLCCs were accepting rates as low as \$2.21 per ton.

The largest single component of the surplus, 67 million DWT at the end of February, consists of ships at sea carrying oil, but at sea only because many tankers are currently sailing at low speeds. This practice minimizes consumption of fuel, currently four times its pre-embargo price. An additional 40 million DWT of excess tonnage could be absorbed by slow steaming as of the end of 1975.

Tankers deactivated and in layup, an unprecedented 12 million DWT at the end of February, ^{25X6} form the second largest category of surplus oil carriers. Although

* This weekly index, [REDACTED] averages the rates for all single-voyage charters currently in effect or pending.

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Disposition of the World's Oil Fleet
28 February 1975

	<u>Million DWT</u>		
	Total	Tanker	Combination Oil/Dry Cargo Carriers
Total fleet	294.5	253.4	41.1
Minimum required to meet current demand	205.2	166.1	39.1
For oil trade	180.0	161.7	18.3
For dry cargo trade	23.0	2.6	20.4
Backup in repair	2.2	1.8	0.4
Calculated surplus	89.3	87.3	2.0
Ships at sea only because of slow steaming	67.1	66.1	1.0
Unemployed ships in layup	12.2	11.5	0.7
Unemployed ships in operation waiting for business	10.0	9.7	0.3

laying-up is a viable option for tanker owners, only a limited number of layup locations exist – especially for VLCCs. Reflecting this lack of space, the monthly flow of tankers into layup has peaked and begun to slow down. Operational tankers anchored in loading areas in hopes of obtaining business make up the remaining 10 million DWT of the surplus. Because of high outlays for labor and insurance and dim prospects for increased oil trade, this option remains the last choice of most owners.

The present surplus of oil carriers would be substantially worse if opportunities for alternative employment in the movement of bulk dry cargo did not exist. Because dry cargo charter rates are higher than oil rates, a record 23 million DWT of tankers and combination carriers is currently in dry cargo service. With demand weak on the dry cargo charter market, however, further relief from this source is limited. Scrapping also offers a small amount of relief, with the most likely candidates being 30 million DWT of tankers more than 15 years old. Even if demand for scrap were high, existing demolition yards cannot sustain a scrapping rate much higher than 6 million DWT per year. (Unclassified)■

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~~Secret~~**Notes****India: Promising Spring Harvest**

The spring harvest could exceed the three-year-old record of 42.2 million tons of grain, according to US Embassy officials, who have raised earlier estimates by 8% after an extensive tour of growing areas. An improvement in wheat production (three-fifths of the spring harvest) is attributed to well-timed rainfall and generally favorable weather, crucial during early plant development. While total 1974/75 grain production will still fall short of the previous year, the better-than-expected performance gives New Delhi some leeway on commercial grain imports. It now has a choice between (a) continuing costly grain imports to start replenishing reserves and (b) allocating import funds to petroleum and other commodities needed to increase lagging industrial output. The latter option involves gambling on a good summer monsoon. (Confidential)

Latin American Sugar Producers Seek Minimum Price

Latin American and Caribbean sugar producers agreed in Puerto Plata, Dominican Republic, last week to attempt to stabilize sugar export prices between 20 and 30 cents per pound. (The f.o.b. Caribbean price has recently been 20 to 25 cents, compared with an all-time high of 65 cents in mid-November.) Eager to avoid the label of an OPEC-style cartel, the members intend to solicit the support of consumer nations to prevent prices from falling below profitable levels or rising to levels detrimental to long-term sales volume. Because they control only about half of the sugar traded in the world market, the members are unlikely to achieve their goal without the support of other major world sugar exporters. Even a wider arrangement would face factionalism and financial problems, particularly in the management of buffer stocks in periods of surplus. (Confidential)

USSR: Rumored Sugar Purchases

Several sugar traders expect the USSR to buy at least 500,000 tons on the world market for summer 1975 delivery. Soviet purchases would strengthen prices, now down substantially from last November's peak. A poor 1974 sugar beet crop has reduced sugar supplies in the USSR. By the end of February, when processing of the crop was nearly complete, refined sugar output had reached 7.1 million tons, compared with 8.6 million tons a year earlier. The USSR requires an additional 3 million tons to maintain consumption levels through 1975. Cuba is expected to provide no more than 2 million tons, and last fall's estimated free market purchases of 270,000 tons will cover only part of the deficit. (Confidential)

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Romania and MFN

Romania will join Poland and Yugoslavia as East European nations with MFN status if Congress approves the US-Romanian Trade Agreement signed on 2 April. Among Romanian sales that would benefit substantially are leather shoes, clothing, and wooden furniture. Three-fourths of Romanian exports to the United States, however, consist of gasoline, fuel oil, canned ham and pork, and agricultural tractors, which are subject to little or no tariff discrimination. The Romanians, whose trade with the United States has been in the red for many years, ran a deficit of \$147 million in 1974. (Unclassified)

China Invites First US Manufacturing Group

China has invited the US Electronics Industries Association to send a delegation to Peking in July. Until now, the Chinese have dealt only with individual US firms. The decision to invite the business group stems from a pressing need to satisfy domestic requirements in a high-technology area. The Chinese presumably will lobby for liberalized COCOM restrictions on US exports, as well as for MFN treatment – a subject that has been mentioned repeatedly during previous meetings with American businessmen. The Chinese also may sound out the delegation on the market potential in the United States for Chinese-made electronic components. (Secret. No Foreign Dissem)

Publications of Interest*

Southern Europe: Short-Term Economic Prospects

(ER IM 75-9, April 1975, Confidential No Foreign Dissem)

This memorandum is a compendium of recent EIW articles on economic developments and short-term prospects in Cyprus, Greece, Italy, Portugal, Spain, and Turkey.

Communist Aid and Trade Activities in Less Developed Countries, March 1975

(ER RP 75-13, April 1975, Secret No Foreign Dissem)

This monthly publication gives details of recent Communist aid and trade activities in LDCs.

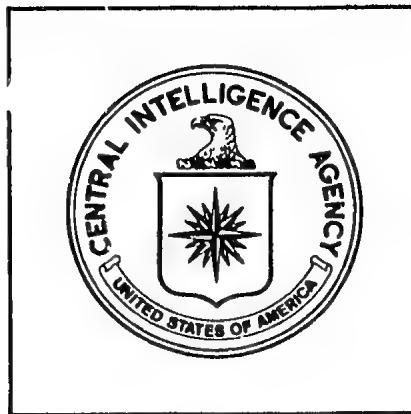
Production of Machinery and Equipment in the Peoples Republic of China

(A (ER) 75-63, April 1975, Unclassified)

This research aid presents estimates of China's annual production of some 30 major items of machinery and equipment for all or parts of the period 1949-73.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7234.

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ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

April 30, 1975

Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 7402 or 351-7402.

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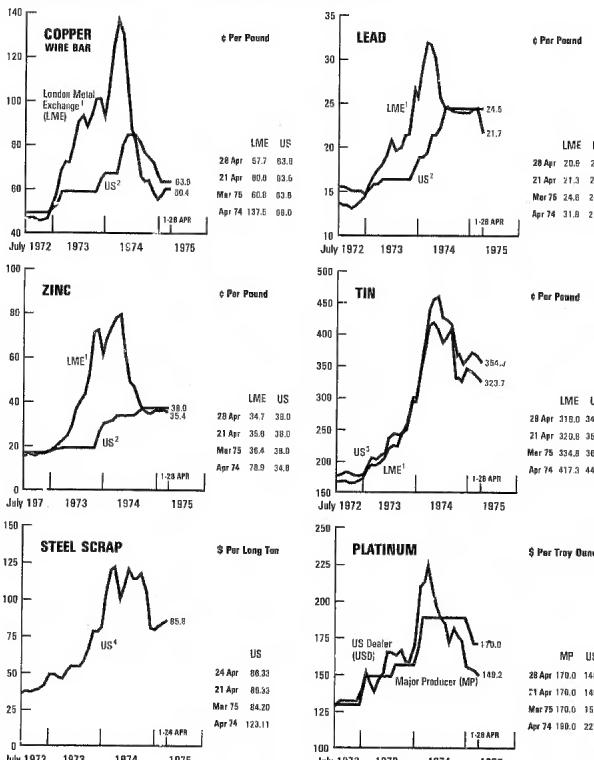
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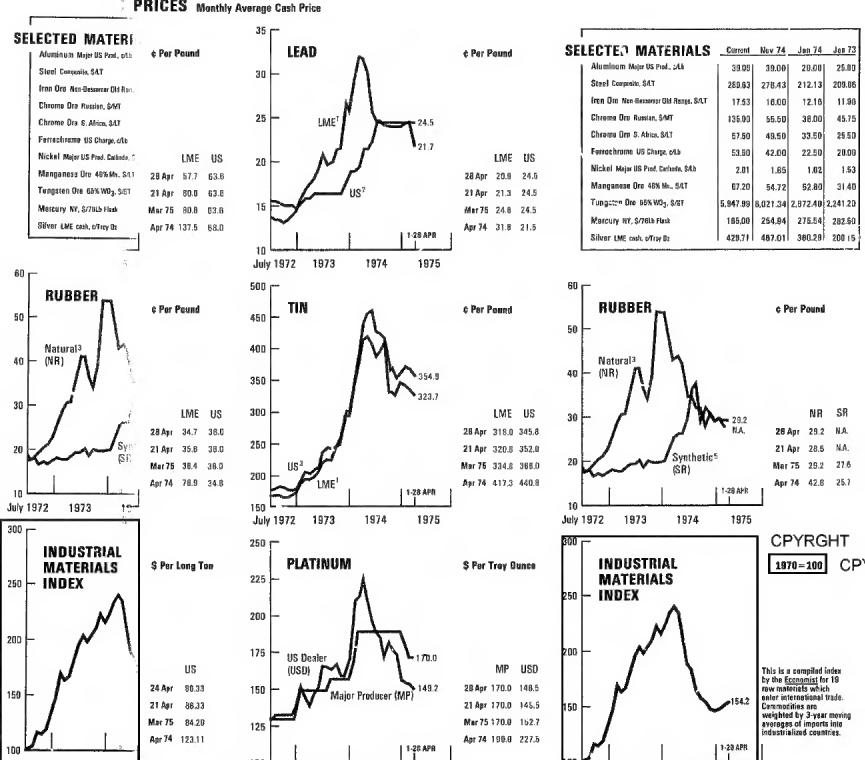
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INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



PRICES Monthly Average Cash Price



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This is a simplified table by the Economist for 18 raw materials which are traded in world trade. Commoditys are weighted by 3-year moving average of imports and exports in million tonnes.

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¹ Approximates world market price frequently used by major world producers and traders.
² Actual price of small quantities of some materials are actually traded on the LME.
³ Producer's price of intermediate materials sold in the United States.
⁴ Traded on New York market.
⁵ S-type synthetic, US i.a. export price.

